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Markel Corp

Second Quarter 2025 Earnings

CORPORATE SPEAKERS:

Thomas Gayner
Markel Group; Chief Executive Officer

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Brian Costanzo
Markel Group; Chief Financial Officer
Simon Wilson
Markel Insurance; Chief Executive Officer

PARTICIPANTS:

Andrew Kligerman
TD Cowen; Analyst
Maxwell Fritscher
Truist Securities; Analyst
Andrew Andersen
Jefferies; Analyst

PRESENTATION:

Operator^ Good morning. And welcome to the Markel Group Second Quarter 2025 Conference Call. (Operator Instructions)

During the call today, we may make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

They are based on current assumptions and opinions concerning a variety of known and unknown risks.

Actual results may differ materially from those contained in or suggested by such forward-looking statements.

Additional information about factors that could cause actual results to differ materially from those projected in the forward-looking statements is included in the press release for our second quarter 2025 results as well as our most recent annual report on Form 10-K and quarterly report on Form 10-Q including under the caption safe harbor and Cautionary Statements and risk factors.

We may also discuss certain non-GAAP financial measures during the conference call today.

You may find the most directly comparable GAAP measures and reconciliation to GAAP for these measures in the press release for our second quarter 2025 results or in our most recent Form 10-Q.

The press release for our second quarter 2025 results as well as our Form 10-K and Form 10-Q can be found on our website at www.mklgroup.com in the Investor Relations section.

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Please note, this event is being recorded.

I would now like to turn the conference over to Tom Gayner, Chief Executive Officer.

Please go ahead.

Thomas Gayner^ Thank you, Kelvin. And good morning. This is indeed Tom Gayner.

It's my great pleasure to welcome you, along with Brian Costanzo, our CFO; and Simon Wilson, the CEO of Markel Insurance to our second quarter 2025 conference call. Mike Heaton, our COO, will also be available and join us for the Q&A portion.

At Markel Group, we are a diverse and resilient family of businesses with insurance at the core.

We aspire to be the best home for our businesses.

Over the past few years, we've made significant changes, all with the goal of relentlessly compounding your capital over time.

We continue to take actions towards this goal.

On today's call beyond providing an overview of our results, we'll provide an update on some of our recent steps to improve our insurance business and enhance the financial reporting and disclosures for the insurance operations to better align it with the business' strategy and provide more detail for investors.

As we announced earlier this year, we appointed Simon Wilson as the new leader of Markel Insurance, who, along with his team, is making great strides to improve that business with a point of emphasis on our U.S. markets. Markel has been a leading specialty insurance company dating back to 1930, but every great company must continually renew itself, zealously pursue excellence and look for ways to improve.

We are no different.

We're working on that pursuit of excellence in our insurance operations by continuing to simplify and place more autonomy and accountability in the hands of individual business leaders through clear ownership of separate profit and loss statements.

We've seen this decentralized approach work in our international operations. This is not a new idea.

It's also the approach that characterized our U.S. operations for most of their long history.

It's the approach that will plant seeds for the future and put our cornerstone insurance business back in the top tier.

Those seeds will take time to fully bear fruit in our operating numbers, but I believe that increasing accountability and expense efficiency will lead to improved results over time.

Also yesterday, we announced the next big step in the insurance business' simplification, specifically the decision to sell our reinsurance renewal rights and to stop writing new business through our global reinsurance operation.

As a reminder, we entered reinsurance when we acquired Altera over 10 years ago. When the Markel Insurance team began to refocus on its core competitive advantages, it became evident that we should focus on our more core lines of business.

While decisions like these are never easy, I am confident this step is necessary to deliver on our commitment within the Markel style to be a market leader in each of our pursuits.

Simon and the team also simplified the organizational structure of our U.S. wholesale and Specialty operations during the quarter and consolidated the business under the leadership of Wendy Hauser.

Simon will take you through the details, but essentially, we have combined our previous Insurance and Reinsurance segments while creating four distinct operating divisions of U.S. Wholesale and Specialty, U.S. Programs & Solutions, International and Global Reinsurance, which we have now placed into runoff.

Brian will provide more detail later regarding how we have resegmented the reporting for our insurance businesses to align with how we're running them going forward. Again, we believe this will provide investors with greater transparency, allowing them to better track our performance.

Finally, we increased our loss estimates and strengthened reserves within our discontinued U.S. and European risk-managed D&O professional liability products, which is in runoff and within our global insurance reserves -- global reinsurance reserves, establishing a higher level of management margin as we put the book into runoff.

Our years of pursuing growth in our risk-managed D&O product line have proven an expensive lesson.

It's one that we have learned from and are responding to through the simplification and improvement work in our insurance operations. Despite putting up additional reserves for our U.S. and European risk-managed D&O and global R exposures, it's important to note that we reported six points of overall favorable reserve development from Markel Insurance in the first half of the year.

We continue to set our reserves at conservative levels that we believe will be more likely redundant than deficient.

Our favorable reserve development in aggregate continues to validate that statement.

We've reported favorable reserve development for over 20 years in a row, and our goal is to continue to extend that record.

Also the investments we hold against those reserves generate significant investment income.

For example, overall recurring investment income from interest and dividends reached $467 million for the first half of 2025 compared to $441 million a year ago.

With respect to our public equities, the always volatile mark-to-market changes in the carrying value of our equity securities was a positive $431 million for the first half of 2025 compared to a positive $772 million in the prior year.

Switching to our Ventures operations. Revenues year-to-date grew to $2.7 billion compared to $2.6 billion and operating income grew to $310 million versus $281 million.

The Ventures businesses funded all ongoing capital expenditures internally while generating cash for use at the holding company to repurchase shares and other general purposes.

Our leaders within these businesses continue operating with autonomy, accountability and excellence, driving great returns for shareholders. These businesses, along with our underwriting profits and investment income added to liquidity, which we have been building intentionally.

Our significant cash and short-term investment balances reflect our desire to retain optionality across a broad set of future potential market environments.

As for the price of your shares, each Markel Group share closed at $1,997 on June 30, 2025, compared to $15.76 a year ago and $923 five years ago on June 30, 2020.

Our fully diluted share count now stands at 12.8 million compared to 13.1 million a year ago as we continue to repurchase our shares.

Over the last five years, the price of each share of Markel Group compounded at an annual growth rate of over 16%.

Over the last 39 years of our existence as a public company, that number has been approximately 15%.

So to restate the fundamentals in our largest business, we provide specialized forms of insurance all around the world.

We're dedicated to earning an underwriting profit from doing so, and we have for decades.

We allocate those underwriting earnings to investing in minority or majority-owned equity investments, which can earn higher returns than available from traditional fixed income securities.

We then take the income earned from our investments, ventures and underwriting and operations and rinse and repeat and do it all over again.

By consistently following this strategy, we've created a flywheel that continues to relentlessly compound the value of your company over decades through constantly allocating capital to its highest and best use.

Finally, our Board level review is ongoing.

I hope you can see from the evidence that we continue to act when we see opportunities to build the value of your company every day.

With that, I'd like to turn the call over to Brian Costanzo to update you on the numbers. Brian?

Brian Costanzo^ Thank you, Tom. Good morning, everyone. The start of 2024, we began reporting Markel Group segment operating income for our investments, ventures and insurance engines.

Operating income is a key driver of our intrinsic value and long-term incentives.

If you must pick one metric for our scorecard, operating income is the best place to start.

We use 5-year periods to keep that scorecard because the expected volatility in the mark-to-market of our equity portfolio normalizes over longer periods.

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Over the past four calendar years, plus the first six months of this year, we have accumulated operating income of just over $11 billion.

In the second quarter of 2025, consolidated operating income was $1.1 billion versus $410 million in the same period one year ago. The biggest driver of the year-over-year difference was changes in unrealized gains on the equity portfolio, which flows through GAAP operating income, distorting quarterly year-over-year comparisons.

Within our insurance engine, which includes our Markel Insurance business, along with our State National and Nephila businesses, operating income was $128 million for the second quarter of 2025 versus $177 million in the same period one year ago. The decline in year-over-year was driven by less favorable prior year loss development and a higher expense ratio.

Markel Ventures revenues were up 7% in the second quarter or $1.55 billion in the second quarter of 2025 versus $1.45 billion in the comparable period one year ago. Ventures operating income was up 17% year-over-year in the second quarter of 2025 or $208 million in the second quarter this year versus $177 million in the same period last year. These increases were driven by the contributions from EPI, which we began consolidating in the first quarter of 2025 and Valor, which we acquired last year, along with increases within our construction services businesses, partially offset by decreases from our transportation businesses.

Since EPI and Valor are newer businesses to the family, we thought context on each would be helpful. The multiyear nature of EPI's education placement contracts provides stability to its quarterly results.

The company sponsors an exchange visitor program for teachers.

It serves school districts in the Southeast and Mid-Atlantic U.S. states.

It serves a market with favorable long-term demand trends. This, plus EPI's sterling reputation, gives that business good revenue and earnings visibility with a steady growth profile.

Ballard services the cyclical commercial and residential construction markets, where the latter has experienced softening conditions of late.

However the growing importance of proper erosion control and storm water protection provides Ballard with a backdrop for growth over cycles.

Our equity finance approach and capital discipline factors in cyclicality when we underwrite businesses.

We are thrilled to welcome both businesses to the family.

Turning over to our investments.

Investments operating income was $822 million for the second quarter of 2025 and $100 million for the same period one year ago.

Our equity portfolio returned 5.4% in the second quarter with $597 million in mark-to-market gains, which are included in our Q2 2025 operating income versus $116 million in losses in the comparable quarter last year.

While we expect to see short-term fluctuations in our equity portfolio when measuring them on a quarterly basis, over the long term, our public equity portfolio has created excellent returns and now has a cumulative unrealized gain of $8.3 billion.

We continue to take advantage of our low-cost and tax-efficient structures, long-term holding lens and allocating a portion of our incoming cash flows to compound capital in our public equity portfolio.

Net investment income was $228 million in Q2 2025 versus $220 million in Q2 2024.

While net investment income from our fixed portfolio increased, declines in short-term interest rates caused the year-over-year increases in interest income to moderate.

In Q2 2025, our fixed income book yield was 3.5% and our short-term investments yield was 3.9%.

We continue to add new fixed income investments at higher yields, approximating 4.2% versus maturing bonds with yields approximating 3.4% 96% of our bond portfolio was held in fixed income securities that are rated AA or better.

As we have previously discussed, we seek to materially match our fixed income portfolio in both duration and currency to our net loss reserve liabilities.

During the second quarter, the dollar weakened against our two primary transactional foreign currencies, the euro and the British pound.

We reported a net loss from foreign currency in the quarter of $192 million, which was substantially offset by positive movements in foreign currency within our fixed income portfolio that is included within other comprehensive income.

During the second quarter, we also made a change to our capital stack through the redemption of our $600 million 6% preferred stock. The coupon rate on that instrument would have reset to current market rates, exceeding 10% had we not redeemed the security this past quarter.

I will now spend a little more time discussing our Markel Insurance underwriting operations, our largest cornerstone operating business.

First, I want to call attention to the changes in our external reporting this quarter within our insurance operations to align with our recent organizational and management changes.

We have resegmented our insurance operations and are now reporting our Markel Insurance business under Simon's leadership as one segment.

As Tom mentioned, this new segment combines our previous insurance and reinsurance segments while providing more detail by breaking this segment into four operating divisions: U.S. Wholesale and Specialty, Programs and Solutions, International and our Global Reinsurance division, which we have placed into runoff.

We believe our expanded disclosures will help investors better understand the performance and underlying drivers of our insurance business going forward. You can see a breakdown of our quarterly and year-to-date results by operating division within our 10-Q. These changes are an initial step in our commitment to adapt and improve our external reporting.

We expect to make further improvements to our reporting in the second half of this year and look forward to providing updates on our progress.

I'll now provide a bit more detail on the results of our new Markel Insurance segment.

Underwriting gross written premiums were down 2% for the quarter and up 1% on a year-to-date basis versus the comparable period last year.

The decline in gross written premiums in the second quarter was driven by a 26% decline from Global Reinsurance due to the timing of renewal on large contracts and a decline of 5% with our U.S. Wholesale and Specialty division due to the impact of exiting our U.S. risk-managed D&O product line. Programs and Solutions gross written premiums were up 8% in the second quarter versus the same period one year ago, driven by growth in personal lines. Further, international was up 5% in the second quarter year-over-year with growth across multiple product lines.

For all of Markel Insurance, net earned premium was up 3% on a consolidated basis in the second quarter and 1% year-to-date versus the same period one year ago.

Our more modest earned premium growth reflects growth within many areas of our portfolio, offset by the impact on gross written premiums from the underwriting actions in certain U.S. casualty and professional liability lines that we've taken to improve profitability.

We expect the impact on earned premiums from these underwriting actions to reduce in the second half of this year while continuing to improve our overall attritional loss ratio. The Markel Insurance combined ratio was 96.9% versus 93.8% in the same quarter one year ago. Adverse development in certain now discontinued product lines negatively impacted our combined ratio for the quarter.

Our U.S. and European risk-managed D&O professional liability lines added $127 million or six points to the second quarter overall combined ratio.

Adverse development within our Global Reinsurance division added $50 million or two points to the Markel Insurance combined ratio. Further, losses from our collateral protection CPI product added another $26 million or one point to our current accident year attritional loss ratio. Excluding the impact from these run-off products, our Markel insurance combined ratio for the quarter is in line with our long-term targets.

Our current accident year's loss ratio was 64.5% in the second quarter of 2025 versus 66.6% in the same period one year ago, reflecting the impact of our underwriting actions, along with lower losses on our CPI product this year versus last year. Prior year loss development was 3.8% favorable on the combined ratio in the second quarter of 2025 versus 7.2% favorable in the comparable period last year.

The lower favorable development year-over-year is the result of the reserving actions I just discussed in our runoff risk-managed D&O and global reinsurance product lines, while our ongoing book produced favorable loss takedowns, most notably within our property and marine and energy product lines.

Our expense ratio was 36.3% in the second quarter of 2025 versus 34.5% in the comparable period. 50 basis points of the increase was driven by onetime severance and increased holding company allocations related to professional fees. The remainder was driven by increases in controllable expenses.

We acknowledge that our expense ratio is not where it needs to be and are committed to reducing the controllable expense ratio within our insurance operations over time.

As a reminder, beginning in 2023, we began taking a series of decisive actions, which we believe will better position the insurance business for profitable growth in the future.

First, we took corrective actions through exiting several product lines including primary casualty retail, business owners policy, risk managed excess construction, risk managed architects and engineers and CPI.

Second, across our portfolio, we meaningfully reduced the construction mix in our casualty portfolio.

We changed the terms and conditions to eliminate certain exposures to subcontractors, reduced limits on excess lines and implemented premium caps in challenging states.

We have been achieving double-digit rate increases across the casualty portfolio this year and are walking away from risks that are not adequately priced. Third, we took further actions in 2025 including combining our risk-managed public D&O to a single access point within our Bermuda platform in our Programs and Solutions division and placed our U.S. and European platforms for this line into runoff.

We also announced yesterday the transition of our global reinsurance business into runoff through the sale of renewal rights to Nationwide. Premiums will continue to be earned in this division over the next two to three years due to the multiyear nature of contracts. Further, we will have some renewal contracts processed in the third quarter and premium writings going forward will largely be tied to adjustments on in-force contracts.

We expect the accumulation of all these actions to be accretive to our 2025 and 2026 results, but they will put short-term pressure on Markel Insurance's gross written premium growth.

We continue to hold loss reserves at a level that we believe is more likely redundant than deficient.

Our reserve strengthening within our runoff books this quarter includes management actions intended to put these reserves at a level above our actuarial best estimate, creating a higher degree of confidence in the reserve adequacy.

We expect our reserving philosophy to continue to produce prior year loss takedowns in future periods.

We expect all of our actions to drive an improved attritional combined ratio in the back half of 2025 and continued improvement into 2026.

With that, I will turn it over to Simon.

Simon Wilson^ Thanks, Brian.

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On the last quarterly call I spoke about my natural inclination to keep things simple.

Today I want to speak about two things.

First, I want to provide some straightforward insight into the latest results of Markel Insurance. And second, I'll summarize the actions that we have taken to implement the changes required to make Markel the world's preeminent specialty insurer.

First, the results. A 97% combined ratio at this stage in the cycle isn't where I aspire to be. Yet the 97% result represents an average of our performance across all lines. The underlying story is that we have three specific pockets of pain in the business and many areas that are highly profitable. The specific pain points are as follows: pain point one.

CPI has been an issue for several quarters. This quarter, we added a further $25 million to the reserves for this class.

While the CPI pain continues to linger a little, this issue has now stabilized somewhat, and we expect this trend to continue over the coming quarters. Pain Point 2, as Brian mentioned, our exited portions of our risk-managed or large-cap executive assurance D&O business, added $127 million of losses in the quarter or six points in terms of the combined ratio.

This is an area that we identified as a persistent challenge in the latter part of 2024, and we put the business into runoff in February of this year.

As you would no doubt expect, as the new CEO of Markel Insurance, I was keen to look at the IBNR that have been set against this class as part of the latest reserving exercise. My felt that we needed to act strongly to get ahead of the losses that we've continued to see in U.S. large cap D&O business, especially on the 2020 and 2022 underwriting years.

Pain point 3, our Global Reinsurance business has been loss-making for several years. This quarter, we saw further adverse development of $50 million, equivalent to just over two points on reported combined ratio. This business rises around $1.2 billion of GWP per annum, and in my opinion, is subscale. A strategic decision was required to either scale the business to something more meaningful or to divest it. Given the focus on driving our position in the specialty insurance market, it was clear to me that the best course of action was to sell the renewal rights for our global reinsurance book for the remainder of the book into run.

Outside these three pockets of pain, all of which have been put into runoff alongside the strengthening of the reserves that we have set against them, the ongoing business is performing strongly with an underlying combined ratio below 90%.

Our International Division deserves special mention as a standout performer with a sub-80% combined ratio for the quarter. The second key area that I wanted to address this morning is organizational change and specifically, the changes that we've made to the business to set us up for long-term success. Good strategy involves stopping doing things that aren't working. My previous comments addressed this, but it also involves focusing resources on areas where we can build lasting competitive advantage.

Since March 2025, we have fundamentally reorganized Markel Insurance to enable us to focus on the U.S. and international specialty insurance markets that we know best.

Of all the changes made and most strategically significant were to our core U.S. specialty operations. The changes to our U.S. business will simplify how brokers access Markel, reduce channel conflict and provide much greater clarity on business ownership and performance.

We've aligned financial reporting against the new structure, which allows us to hold leaders accountable for their units performance.

In simple terms, we divided our U.S. operation into two divisions. The first is U.S. wholesale and specialty.

As President, Wendy Hauser, is responsible for our core lines of specialty business, property, casualty, professional and binding, which are sold through both wholesale and retail channels. When we moved quickly to simplify our organization from six regions down to four Northeast, Southeast, Central and West, each with a single leader, fully accountable for their region's P&L. Each regional leader in turn, has identified an individual to run each of the four core product lines in their region. This provides clarity to our brokers about who the key decision makers are and, in turn, will allow us to respond to those brokers more quickly than ever before.

Alex Martin is the President of the second division, our programs and solutions business.

In this role, Alex was responsible for a portfolio of five specialty business units. -- each of which targets a specific product, distribution channel or customer type.

Specifically, those business units are surety, workers' comp and small commercial, personal lines, Bermuda and Programs and Alliances. Each of these business units also has a clearly identified leader, fully accountable for their associated P&L.

The third division at Markel Insurance is our international business, which is led by Andrew McMahon. This organization has operated for several years now consistent with how we reorganized the U.S. business and the excellent results speak for themselves. A final major

change that was required to align costs with the business units is the federation of our corporate and shared service departments into the relevant divisions. This decentralizes significant portions of departments such as IT finance and claims into the business units that they directly support.

The colleagues in these teams are now more strongly aligned with the business. The associated costs are now more transparent and directly attributable to the P&L owners who will decide how best to utilize those resources.

We expect these changes will allow us to run the business more efficiently going forward.

In total, we have now federated more than 70% of all corporate and shared service personnel, over 1,250 people into the business units over the past three months. To further solidify our ability to oversee and drive Markel Insurance forward, we have named Henry Garden, Chief Risk Officer; Ben Harris as Chief Commercial Officer; and Christian Stops, Chief Strategy and Corporate Development Officer.

I'm a fervent believer in clarity of business ownership, aligned P&Ls and allowing business leaders to make decisions as close to the customer as possible. Responsibility and accountability go hand in glove.

Getting to the point where everyone within Markel Insurance is clear on their roles and responsibilities has been our north star for all the changes that have occurred throughout the past three months.

In summary, since April, we have restructured Markel Insurance into three core operating divisions consisting of 16 underlying P&Ls. Each P&L has a clearly identified leader.

It is empowered to make decisions on behalf of their business. To better align resources with these P&Ls, we have federated over 70% of all colleagues from the central and shared organizations into the divisions.

The divisions will now decide how best to utilize this resource.

The Global Reinsurance division has been put into runoff and the renewal rates have been sold.

We've done a lot in a short span of time. Every decision has been taken with the sole focus of Markel becoming the world's preeminent specialty insurer. There is a long way to go, and this will take time.

But we are back in the game and we're ready to start winning again.

With that, I will hand you back over to Tom.

Thomas Gayner^ Thank you, Simon.

With that, Kevin, would you please be so kind us to open the line for questions.

QUESTION & ANSWER:

Operator^ (Operator Instructions)Your first question comes from the line of Andrew Kligerman of TD Colin.

Andrew Kligerman^ Terrific. And my first question is around the reinsurance going into run loss.

Could you share with us the capital that you might free up in doing so as well as the proceeds that you're going to get from renewal rights.

It strikes me that there's a significant amount of cash that could be freed up? And what might you do with that?

That's the second part of the question.

Thomas Gayner^ Right. And let me turn to Brian to address that.

Brian Costanzo^ Yes, Andrew, I'll say two things.

On the first side, so in terms of the capital, we will see capital really over time as we reduce the premium volume that we write and the reserves run down.

But as we move into runoff, the reserves still sit on our books, the capital, which is a vast majority of the capital tied in those long-tail reserves still sits there. and more importantly, the investments that back those reserves continue to earn returns for us that run through our net investment income and our equity appreciation that occurs.

In terms of the financial considerations, we're not going to disclose the terms of the deal and what the cash considerations were for the renewal rates.

Thomas Gayner^ Andrew, let me add a little color to that. This is Tom.

So Brian accurately talked about the capital requirements. And if you recall the orange of Blue Capital discussion from the annual report a couple of years ago.

So it correctly reminded you that the investments that are associated with that are still on the books, and we'll earn investment income because the capital requirements, regulatory rating agency, things will begin to diminish as the business runs off.

But that does open up the flexibility and optionality for how it can be invested.

So when they're in reserves, we keep them in pretty plain vanilla fixed income securities as we make investment income and have reduced capital requirements, we can have a broader lens as how these proceeds will be reinvested over time.

Andrew Kligerman^ And if I could just follow up on that one question.

As I think about a pretty sizable $1.2 million in premium and typically premium to surplus is 1:1 over time over a few years. Am I thinking about it the right way that maybe $1.2 billion in capital could be freed? I know it takes a bit of time but Yes. Just check there on how I'm thinking about it.

Brian Costanzo^ That is correct.

It will take a while to get to that point though, because you've still got contracts in force we will be earning premium for the next three years, call it, a lot of the deals that we wrote. They're multiyear in nature, quota share deals that we write, we earn those over two years.

So you're still going to have new earned premium coming through the back half of this year, all of 2026 and even into 27 that will keep some of the capital requirements there. that capital requirement will slowly work its way down over time as both the earnings diminish and then the reserves start coming down accordingly.

Simon Wilson^ Yes. It's Andrew, it's Simon.

It's worth saying we do always have an option to look at the market for sort of a deal that would release that capital sooner.

But as Tom and Brian have both said, we're earning good investment return from that capital that stands here today.

So we retain the option value to maybe release that capital earlier, but there will be kind of a cost associated with that over time.

So we'll continue to look at that.

Will balance the position as we see how the market moves. And one other point I'd like to raise is while on the subject of global res of recover of -- probably what wasn't mentioned in our statements there was just the vast number of the underwriting community that went from our global Re operations over to Ryan Re, who are going to be running this book on behalf of nationwide in the future. That was a really important part of the deal for us to see that book just sort of continue and the people to continue with it.

So we're really excited to see what can be done in the future with that, and we wish our people well in the show.

Andrew Kligerman^ And then just to follow up, I also like that you kind of broke out those segments. And just trying to get a little more clarity around programs and solutions. When I think about programs, how much of the segment's business is written by MGAs and what are some of the more prominent areas in which you do that?

Thomas Gayner^ Brian, looking at papers right now to tend to give you some more precise numbers than I have.

Brian Costanzo^ Yes.

So I'd call it roughly a third is coming from delegated underwriting programs within that just under $1 billion of underwriting premium. There's a handful of larger programs that make that up along with a number of smaller, call it, $20 million-ish $40-ish million program that's one of the five kind of pillars in that group that's managed by Jeff Lam and he kind of oversees all of the delegated underwriting arrangements and programs that we contract out with.

Andrew Kligerman^ And has that business performed very well over the last few years?

Brian Costanzo^ Yes.

Obviously I mean you've got a number of programs in there.

So you've always got some going very well some not.

But on the whole, it's performed well for us.

Simon Wilson^ I was talking to Jeff and the other day on this, Andrew, and we think of every 100 programs that come as an opportunity through the door.

We'll get interested in 10, maybe on we'll end up writing two or three.

So it's one of those kind of filtering mechanisms where it has to hit the mark in terms of specialty profitability, can we add some value. And we do look for these programs to be long term in nature. This isn't really transactional business.

We look to embed ourselves with these programs. That really partners as much as anything out there in the marketplace. And I do think -- I will say this, I think it will be a growing sector of the U.S. specialty market over the next two or three years.

So I think being good at this area is very, very important for us to keep an eye on.

And it's not about premium. This is about profit. And every single time we look at one of those delegated opportunities.

Operator^ Your next question comes from the line of Maxwell Fritscher of Truist.

Maxwell Fritscher^ I'm calling in for Mark Hughes. Any comment on the workers' comp line how much did that contribute to the quarter's favorable development? And then are you seeing any emerging signs of medical inflation pressure there?

Thomas Gayner^ Brian will speak to that.

Brian Costanzo^ Yes.

So we kind of continually seen what I'll call gradual takedowns in our workers' comp line. That's been going on for 2, 3, four years similar to the rest of the industry.

We have a smaller book there than some others focused on kind of micro-cap workers' comp has performed very well for us over a number of years. Certainly, medical inflation is a watch area in that space, maintaining rate adequacy, making sure that we've got admitted filing rates that cover the loss cost is heavy focus of that line.

It's growing modestly, kind of combination of growth, there's a little bit of negative rate environment in that space but nothing too dramatic going on there.

Simon Wilson^ Yes. And one on the pharmaceutical it, in particular, that aspect. The tariff situation more broadly is something that we keep in.

One of the things I like about the new structure is that workers complicate business is very much segregated, so we can keep a close eye on both the rates and any of the inflation that's coming through.

So a lot of this is out of our control but we'll see it, and I think we'll see it a lot sooner than we may have done previously.

So it's an area that we're keeping a watch on.

But at this point in time Brian, I mean it does seem to be an area of business that's been profitable and so we're confident in the book of business that we've got there.

Thomas Gayner^ Let me add one bit of texture to Simon's answer. The logical follow-on from being able to keep an eye on something is that, that would cause you to take actions when you observe data more closely than we would have been the case in the past.

So I wanted to finish the setup there.

Maxwell Fritscher^ Yes. Very helpful. And then does the 2Q current accident year loss pick in Markel Insurance represent a good run rate for the back half of the year?

Brian Costanzo^ Yes.

I would generally say so you're starting to see the impact of the underwriting actions we've been talking about the last kind of 18 months earned their way through, that has naturally kind of ticked down the accident year loss ratio year-over-year.

Operator^ Your next question comes from the line of Andrea Anderson of Jefferies.

Andrew Andersen^ Within Ventures, you had highlighted some increased demand in construction services.

Could you just talk about the environment there and pipeline, maybe how you're thinking about the second half. And I realize there was a little bit of an offset from transportation within there.

Thomas Gayner^ The phrase I would use that we've bandied around is you have to burn more colors to get the same unit of output.

So business is complicated. Tariffs that Simon referred to, they're just all these different sorts of curveballs and forces out there. And again, I take my hat off and I thank the CEOs and the leadership teams who are running those businesses.

I think they're doing a great job of navigating uncertainty and figuring out what the next day brings and taking reasonable thoughtful and skill actions to make the best of it.

Andrew Andersen^ And maybe pivoting to insurance. The decision to exit the risk-managed D&O book.

Could you elaborate a bit on what the actuaries found that led to the adverse development there?

Simon Wilson^ Maybe I'll kick off and Brian will come through.

But we're right, we talked about large cap side of generally U.S. domiciled large businesses. we were just seeing, I think, certainly, I mentioned the year 2020, 2022, we're writing excess layer business there.

But typically, we were fairly -- now we look at it in hindsight, we were fairly low down for very large cap large-cap U.S. businesses.

What we were seeing is that there are many, many court cases going through where these businesses were being sued for sums of money, which we were excess at one point in time.

But given the kind of inflation and the legal environment in those years, what we thought was excess became almost like a working layer.

So we were just in the wrong portion of that business work, we certainly weren't high enough. Unfortunately, that business has now been written, and we're seeing the claims come through, and we actually saw an acceleration of those claims, probably during the course of 2023 and certainly during 2024 on those particular years of account.

So we've acted to stem the bleeding to a great degree, but we've got to take that news seriously. And I think you can see that with the reserving action that's been taken.

But maybe, Brian, you got a bit more color.

Brian Costanzo^ Yes. And maybe the only thing I'll add is if you rewind back to 2023, we talked about this line back then as part of the kind of reserve review that we did.

We had external parties come in and help us look at that. we had raised reserves in that product line at that time to kind of the high end of the range of kind of our view and the external views.

What's happened since then is kind of what Simon is saying is particularly and probably the last six to nine months, claims severity and frequency have just exceeded the expectations of kind of any of the modeling that we had out there.

And we felt it was necessary to take a strong aggressive action against that and put meaningful reserves up against what might happen in the future with the claims going forward.

So some of that was in reaction to what the actuaries were seeing.

Some of that was management coming and saying, "I want to go above and beyond what the actuals are recommending and put an additional level of margin of safety on top of the actuarial recommendation.

Simon Wilson^ And I think that's particularly true in this area in a runoff in it. Just when you do that, you don't want the distraction to be there time and time again.

So I think the action we've taken now is to allow us to focus on the go-forward book of business that we've gotten. You never know what happens with these things, but we've gone very hard at that particular line of business intentionally.

Andrew Andersen^ And that was sort of my next question here.

I think the adverse in reinsurance that was driven by a third-party review, I believe, of the general liability. Did that same third-party review insurance this period? I know you mentioned you did it a couple of years ago, but was there a review from a third-party perspective of insurance this year?

Brian Costanzo^ No. The review was the same third party that we used in '23 to review the insurance, but the review this quarter was only on the reinsurance book, I would say something very similar to what I just said on our kind of reaction in reinsurance.

We looked at their recommendation.

We raised our recommendation to something that was around what the recommendation from their side was and then management came in because we're putting it into runoff and went above kind of the actuarial recommendation and said we're going to put a level of prudency on top of that.

Operator^ (Operator Instructions) There are no further questions at this time. This concludes our question and answer session.

I would now like to turn the conference back to Tom Gayner for any closing remarks.

Please go ahead.

Thomas Gayner^ Thank you very much.

We appreciate you joining us.

We hope you enjoyed the update on the pace of progress of the way things are going here at Markel and we look forward to connecting with you in about a quarter from now. Thank you

Operator^ The conference call has now concluded. Thank you for attending today's presentation.

You may now disconnect.